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# Macroeconomic policy questions: financing of development, including net transfer of resources between developing and developed countries

## Note by the Secretary-General

The Second Committee held a substantive debate on agenda item 95 (a), entitled "Macroeconomic policy questions: financing of development, including net transfer of resources between developing and developed countries", at its 52nd and 53rd meetings, on 19 March 1998. The summary records of those meetings (A/C.2/52/SR.52 and A/C.2/52/SR.53) contain numerous proposals by Members States on key elements that might be included in the consideration of financing for development, as well as the identification of potential sources for inputs to such a process.

In addition to the formal statements delivered at the 52nd and 53rd meetings, a number of Member States also submitted papers outlining key elements and potential sources. The Chairman of the Second Committee ruled that those papers would be circulated as an official document of the General Assembly. The submissions are reproduced in the annex to this note.

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# Annex

## Key elements and potential sources of financing for development

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# A. Proposal submitted by Indonesia (on behalf of the States Members of the United Nations that are members of the Group of 77 and China)

| *Key elements and topics* | *Issues* | *Sources* |
|---|---|---|
| I. International cooperation for development | | |
| A. Official development assistance | | |
| 1. Reversing the declining trend of official development assistance | Fulfilment of the 0.7 per cent of gross national product for overall official development assistance and 0.15 per cent for the least developed countries | Governments, United Nations Conference on Trade and Development (UNCTAD), South Center, regional commissions, Department of Economic and Social Affairs, Organisation for Economic Cooperation and Development, Oxfam International |
| 2. United Nations operational activities | Declining trends of core resources<br>Supplementary role of non-core resources<br>Interface between the United Nations and the private sector (institutional arrangements, priority setting, accountability)<br>Enhancement of their effectiveness and efficiencies | Governments, Department of Economic and Social Affairs, United Nations funds and programmes |
| 3. Funding by multilateral financial institutions | International development assistance<br>Enhanced structural adjustment facility<br>Regional development banks | Governments, International Monetary Fund (IMF), World Bank, South Center, regional development banks |
| B. External debt problem of developing countries (bilateral, multilateral and commercial) | | |
| 1. Debt problem of low-income countries: Heavily Indebted Poor Countries Debt Initiative | Timing, eligibility criteria and funding | Governments, UNCTAD, IMF, World Bank, regional development banks, regional commissions, financial institutions (public and private) |
| 2. Debt service problems of middle- and low-income countries | High social cost incurred in the efforts to fulfil commitments on debt servicing | |
| 3. Debt relief measures within the framework of the Paris Club and through the cancellation of debts and equivalent bilateral official debt | | |
| C. New and innovative funding for development | Public-private partnership<br>Charges and fees | Governments, United Nations funds and programmes, research institutes, academic and scientific think-tanks, non-governmental organizations |
| II. Private financial flows | | |
| A. Foreign direct investment | Encouraging capital and investment flows across a broader range of developing countries | Governments, UNCTAD, IMF, financial institutions (private and public), business community (transnational corporations) |

| *Key elements and topics* | *Issues* | *Sources* |
|---|---|---|
| B. Private short-term financial capital flows | Promotion of an orderly and flexible approach to the liberalization of capital accounts | Governments, UNCTAD, World Bank, IMF, financial institutions (private and public), business community (capital market) |
| | Promoting an orderly and flexible approach to the liberalization of capital accounts | |
| | The risk of their volatility | |
| III. Managing the international financial and monetary system | | |
| A. Inadequacy of the present international financial and monetary institutions to cope with the challenges of globalization | Increasing the role and participation of developing countries in the decision-making process of international financial and monetary institutions | Governments, UNCTAD, IMF, World Bank, research institutes, academic and scientific think-tanks, business community (capital market) |
| B. Review of the capabilities and modalities of the international monetary and development finance institutions to respond to crises induced by large-scale capital movements | Strengthening preventive mechanisms: multilateral and regional surveillance | Governments, UNCTAD, IMF, World Bank, regional economic cooperation/ groupings |
| | Exploration of innovative mechanisms (regional fund) | |
| C. Interface between United Nations and Bretton Woods institutions | | Governments, IMF, World Bank |
| D. Conditions imposed by international financial and monetary institutions in dealing with financial crises, including the recent financial crisis | Social safety nets as integral parts of economic reform and stabilization and structural adjustment programmes | Governments, IMF, World Bank, United Nations funds and programmes, research institutes, academic and scientific think-tanks, non-governmental organizations |
| IV. Enabling environment and other supportive measures for mobilization of resources | | |
| A. Coordination of macroeconomic policies | Monitoring the macroeconomic policies in a symmetrical manner | Governments, UNCTAD, IMF, World Bank, World Trade Organization (WTO), South Center, academic and scientific think-tanks, non-governmental organizations |
| B. Strengthening domestic financial and monetary regulatory and institutional framework | Capacity-building (institutional, human and financial) | Governments, IMF, World Bank |
| C. Enhancing developing countries' participation in the process of setting up banking system standards | | UNCTAD, Basle Committee on Banking Supervision, Bank of International Settlements |
| D. Domestic management of financial flows | Liberalization of capital accounts (lessons learned from the recent financial crisis) | Governments, UNCTAD, IMF, World Bank |
| E. The role of micro-financing and financial intermediation in the mobilization of domestic resources | Capacity-building (institutional, human and financial) | World Bank, IMF, regional commissions, business community |
| F. Fulfilment of financial commitments undertaken in the context of recent global conferences | Mobilization of new and additional resources | Governments, World Bank, GEF, Montreal Fund, relevant national organizations, civil society, including non-governmental organizations |

| *Key elements and topics* | *Issues* | *Sources* |
|---|---|---|
| G. Trade and financing for development | Strengthening capacities of developing countries in the multilateral trading system (institutional, human and financial capacities) | UNCTAD, WTO, WIPO, regional commissions, regional economic cooperation/groupings |
| | Impacts of the implementation of the international trading agreements on resource flows to the developing countries | |
| V. South-South cooperation | Strengthening technical cooperation among developing countries and economic cooperation among developing countries | Governments, United Nations funds and programmes, regional commissions, South Center, regional economic cooperation/groupings |
| | Triangular cooperation, including the involvement of the private sector | |
| | Regional cooperation | |
| VI. Peace dividend | Resources accrued by major developed countries as the result of the end of the cold war | South Center, academic and scientific think-tanks, research institutions |

## B. Proposal submitted by Japan

I. Inputs required and key elements to be included in the consideration of the topic

A. Case studies of those countries that have achieved rapid development

1. How they mobilized and allocated resources for their development

2. What lessons they offer

B. Resource mobilization

1. Domestic resource mobilization

a. Public sector

i. Prioritization in fiscal spending

ii. Tax collection, pricing of public utilities

b. Private sector

i. Financial sector reforms

ii. Promotion of savings

iii. Micro-finance, micro-credit

iv. Utilizing private-sector potential, e.g., privatization, licensing, build-operate-transfer

v. Fair and transparent regulatory regime

c. Enabling environment for economic growth; stable macroeconomic policies

2. External resource mobilization

a. Official development assistance; building domestic support for official development assistance

b. Private sector

i. Foreign direct investment

ii. Fair and transparent regulatory regime

c. External debt; examination of the present approaches

d. Civil society, including non-governmental organizations

3. New and innovative ideas

a. Fund-raising activities

b. Utilizing the capital market

C. Qualitative aspects of development cooperation

1. National execution of development programmes and projects; building capacity of executing agencies

2. Output-oriented approach

a. Setting targets

b. Improving indicators

c. Improving monitoring and evaluation

3. Ownership and donor coordination
    a. National strategy, programme approach, sectoral approach
    b. Donor coordination
4. South-South cooperation
    a. Promoting South-South cooperation
    b. Triangular cooperation

II. Key actors

A. United Nations programmes and organs (Secretariat, funds and programmes, United Nation Conference on Trade and Development, United Nations University)

B. Specialized agencies (United Nations Industrial Development Organization, International Monetary Fund, World Bank Group)

C. Regional commissions (Economic Commission for Africa, Economic and Social Commission for Asia and the Pacific, etc.)

D. Regional development banks

E. World Trade Organization

F. Organisation for Economic Cooperation and Development

G. Private sector (chambers of commerce, etc.)

H. Non-governmental organizations

## C. Proposal submitted by Switzerland

### Key aspects and issues to be taken into consideration

**Lessons learned from the past: What lessons can we draw from selected case studies on development financing with regard to what works and why?**

Looking at countries that have achieved a relatively broad-based development over the last years, which have been the determining factors:

- Economic and social policies
- Resource allocation
- Decentralization/participation
- Rule of law
- Export earnings
- Foreign capital/investments
- External aid
- Other factors

**Development context (present and prospective)**

- Globalization (trade, capital, employment, environment, etc.), chances and risks
- Debt problem
- Follow-up to global conferences
- Stagnating official development assistance

**Input side of development financing**

- Domestic resource mobilization (Government, private sector)
- External resource mobilization (foreign capital and investment; official development assistance from bilateral (traditional and new donors) and multilateral sources of funding; multilateral/bilateral funding (prospects, chances and risks); measures to increase or maintain official development assistance funding; graduation of beneficiaries of concessional resources)
- External debt management
- Measures taken to promote exports (prospects)
- Innovative sources and forms of funding (scope, chances, risks)
- Complementarity and interaction between the different types of financing

**Output side of development financing**

- Cost efficiency and effectiveness in the use of local and external resources
- Qualitative aspects of development cooperation (contribution to sustainable development, poverty alleviation, participation, gender balance) – implementation of programmes of global conferences

**Sources of information, analysis and advice**

- Least developed countries and other developing countries

## D. Proposal submitted by the United Kingdom of Great Britain and Northern Ireland (on behalf of the States Members of the United Nations that are members of the European Union)

### Institutions for financing for development

Developing country Governments

Donor Governments

Organisation for Economic Cooperation and Development/Development Assistance Committee

Central banks

European Union

European Investment Bank

United Nations

World Bank

World Trade Organization

Regional development banks

Commonwealth

International Monetary Fund

Agence de la francophonie

Nordic Investment Bank and Development Fund

Export credit and guarantee agencies

Private banks

Rating agencies

Investment funds

- Pension funds
- Emerging market funds
- Ethical investment funds

Major private investors

Private firms importing from developing countries

Charitable foundations

Microfinance funds

Non-governmental organizations

Research institutions

Universities

Creditors

Foreign investment promotion agencies in donor countries

## E. Proposal submitted by the United States of America

### Key issues

I. Domestic resource mobilization
   - A. Macroeconomic policy
   - B. Allocation of national expenditures
   - C. Regulatory environment
   - D. Government transparency
   - E. Rule of law
   - F. Micro-credit and micro-finance

II. External resource mobilization
   - A. External debt (Heavily Indebted Poor Countries Debt Initiative, Paris Club, London Club)
   - B. Official development assistance (programmatic and geographic focus)
   - C. Private investment (conducive legal environment)
   - D. Trade flows
   - E. Non-governmental organizations

III. Qualitative aspects of development cooperation
   - A. People-centred development
   - B. Results-oriented development
   - C. South-South cooperation
   - D. Integrated regional approaches
   - E. National ownership and execution
   - F. Donor coordination

IV. New and innovative financing concepts

### Key actors

United Nations system

World Bank Group

International Monetary Fund

Organisation for Economic Cooperation and Development

Regional development banks

Bilateral donors and recipient country Governments, including export credit and guarantee agencies and central banks

World Tourism Organization

Private sector/non-governmental organizations, including rating agencies, WorldWatch Institute, Harvard Institute for International Development, Ford Foundation, Rockefeller Foundation, W. K. Kellogg Foundation, John D. and Catherine T. MacArthur Foundation, Brookings Institute, Overseas Development Institute, World Business Council for Sustainable Development, International Chamber of Commerce

## Studies and reports

### United Nations

Agenda for Development (General Assembly resolution 51/420 of 20 June 1997, annex)

Midrand Declaration, adopted by the United Nations Conference on Trade and Development at its ninth session, held at Midrand, South Africa, on 11 May 1996 (text contained in document A/51/308)

Reports of the Economic and Social Council for the years 1996 and 1997

Commission on Sustainable Development working group on finance

Agenda 21, chapter 33 follow-up

Considerations related to the Second United Nations Conference on the Least Development Countries

Summit Conference on Sustainable Development

Buenos Aires Plan of Action for Promoting and Implementing Technical Cooperation among Developing Countries (*Report of the United Nations Conference on Technical Cooperation among Developing Countries, Buenos Aires, 30 August-12 September 1978* (United Nations publication, Sales No. E.78.II.A.11 and corrigendum), chap. I.)

### Organisation for Economic Cooperation and Development/Development Assistance Committee

*Development Cooperation in a New Global Age*

*Shaping the Twenty-first Century: The Contribution of Development Cooperation*

Final report of the Ad Hoc Working Group on Participatory Development, 1997

### World Bank

*Private Capital Flows to Developing Economies: The Road to Financial Integration*, 1997

*IDA in Action 1993-1996: The Pursuit of Sustained Poverty Reduction*, International Development Association, 1997

*World Development Report 1996: From Plan to Market*

*World Development Report 1997: The State in a Changing World*

"Aid Spurs Growth – in a Sound Policy Environment", in *Finance & Development*, December 1997

### Inter-American Development Bank

Directory of Innovative Financing, September 1995

**Other**

Conclusions of the Micro-credit Summit – 1997

"When Foreign Investors Pay for Development", *World Watch*, May/June 1997

"Development Aid in Transition", remarks prepared by Catherine Gwin for the Rethinking Development in the New World Order Conference, Howard University, 17 and 18 April 1997

"What Determines Capital Inflows?" Harvard Institute for International Development development discussion paper No. 590

"The Role of Major U.S. Foundations in the Implementation of Agenda 21: The Five-Year Follow-up to the Earth Summit", a Rio+5 Special Focus Report, by Norman Myers and Noel Brown, 1997

"Foreign Direct Investment Flows to Low-Income Countries: A Review of the Evidence", Overseas Development Institute Briefing Paper No. 3, September 1997

"NGOs and Official Donors", Overseas Development Institute Briefing Paper No. 4, August 1995

"Sources of Slow Growth in African Economies", Harvard Institute for International Development development discussion paper No. 545, July 1996

"Financing Sustainable Development: A Rio+5 Assessment of Agenda 21 and Its Implementation", a Rio+5 Special Focus Report, by Alvaro Umaña, Instituto Centroamericano de Administración de Empresas, 1997

"Venture Capital: Development Tool", a Rio+5 Special Focus Report, by the South North Development Initiative, 1997

## F. Proposal submitted by the World Bank

I. Economic integration and financial integration

- Regional and global integration of markets
- Speed and sequencing of capital account liberalization, including role of controls on short-term capital flows
- Role of international cooperation in strengthening financial sector supervision and regulation
- Role of international institutions in collecting and disseminating information on emerging markets
- Impact of government (domestic) policies and international rescue packages on incentives facing the private sector and concerns over moral hazard

II. Improving aid effectiveness, globalization and declines in official development assistance

- Determinants of development performance and aid effectiveness
- Aid effectiveness and globalization
- The changing character of the role of official development assistance in development
- The importance of strong policy performance in ensuring that aid has a positive impact on the economy
- Mechanisms for aid coordination
- Improving donor policies, for example, the continued reduction of tied aid requirements and recommendations for strengthening technical assistance activities
- Corruption and aid effectiveness

III. Building effective alternatives to the dependency on aid and strengthening of the global economy

- The role of official agencies in strengthening the private sector: progress in improving the use of export credit guarantees, including strengthening the financial performance of export credit agencies, avoiding competition with private sector provision of credit guarantees and improving coordination of guarantee policies
- Public provision of investment guarantee insurance and the role of bilateral and multilateral agencies
- New tools and instruments
- Civil society
- Knowledge for development

IV. Foreign debt, expansion of grant financing

- Assessing different debt management initiatives
- The important role of the International Development Association (IDA)

- Maintaining or expanding IDA resources: the challenges
- The role and scope of grant financing: where and how much

V. Bilateral financing and development of new partnerships

- The changing role of bilateral financing
- Available funds and modalities
- Criteria for partnerships and development finance issues

VI. The global dimensions

- Global financial stability
- Social impacts of financial reforms and expenditures in the social sectors
- Non-financial determinants of financial performance
- Institutional development
- Financing of development and rethinking the role of the State
- Innovative and effective forms of financing sustainable development

VII. Changing clients and practices and issues regarding sovereign States

- Financing at the national and other levels
- New clients and role of sovereign States